

Subchapter 9 Insurance Fraud
Article 2 Special Investigative Unit Regulations

Section 2698.40 ~~Authority and Purpose~~

~~The purpose of these regulations is to set forth the functions and objectives of insurer, or insurer-based, insurance fraudulent claims investigative units, commonly called "Special Investigative Units" ("SIU" or "SIUs") and the functions and objectives of the Department of Insurance in monitoring the SIUs.~~

~~NOTE: Authority: Insurance Code Sections 1875.20, 1875.21, 1875.22 and 1875.23; Calfarm Ins. Co. v. Deukmejian (1989) 48 Cal.3d 805, 824, 258 Cal. Rptr. 161, 771 P.2d 1247; Credit Ins. Gen. Agents Assn. v. Payne (1976) 16 Cal.3d 651, 656, 128 Cal. Rptr. 881, 547 P.2d 993; Garris v. Carpenter (1939) 33 Cal. App. 2d 649, 653, 92 P.2d 688.~~

~~Reference: Insurance Code Sections 1875.20, 1875.21, 1875.22 and 1875.23.~~

Section 2698.41 ~~Definitions~~

~~(a) "Claims handler" means every employee and agent of an insurer whose principal responsibilities include the investigation, adjustment, settlement and resolution of claims.~~

~~(b) "Commissioner" means the Insurance Commissioner of the State of California.~~

~~(c) "Department" means the California Department of Insurance.~~

~~(d) "Fraud Division" means the California Department of Insurance Fraud Division, formerly the Bureau of Fraudulent Claims. (The Bureau of Fraudulent Claims was designated the Fraud Division subsequent to the publication of Insurance Code Sections 1875.20 et seq. on October 1, 1992.)~~

~~(e) For the purpose of these regulations, "insurer" does not include Home Protection companies pursuant to California Insurance Code Sections ("CIC") 12740 et seq. and does not include reinsurers pursuant to CIC Sections 620 et seq.~~

~~(f) For the purpose of these regulations, "red flag" or "red flag event" means facts, circumstances or events which, singly or in combination, support(s) an inference that fraud has been committed with respect to an insurance claim.~~

~~(g) "Regulations" means these regulations, California Code of Regulations, Title 10, Chapter 5, Subchapter 9, Article 2.~~

~~(h) "Special Investigative Unit" means an insurer's designated employees, a functional group which is established by one or more insurer(s), or a functional group with which an insurer contracts, for the purpose of (1) complying with the Purposes and Objectives as set forth in~~

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Insurance Code Sections 1871 et seq., and Section 2698.42 herein and (2) performing the Functions and Activities as set forth in Section 2698.43 herein of these regulations.

~~NOTE: Authority: Insurance Code Sections 1875.20, 1875.21, 1875.22 and 1875.23; Calfarm Ins. Co. v. Deukmejian (1989) 48 Cal.3d 805, 824, 258 Cal. Rptr. 161, 771 P.2d 1247; Credit Ins. Gen. Agents Assn. v. Payne (1976) 16 Cal.3d 651, 656, 128 Cal. Rptr. 881, 547 P.2d 993; Garris v. Carpenter (1939) 33 Cal. App. 2d 649, 653, 92 P.2d 688.~~

~~Reference: Insurance Code Sections 1875.20, 1875.21, 1875.22 and 1875.23.~~

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Definitions

As used in this article, the following definitions shall apply:

- (a) “Authorized governmental agency (agencies)” shall have the same meaning as used in the Insurance Frauds Prevention Act (IFPA).
- (b) "Claims handler" means every employee and agent of an insurer whose principal responsibilities include the investigation, adjustment, settlement and resolution of claims.
- (c) "Commissioner" means the Insurance Commissioner of the State of California.
- (d) “Communication” includes the referral of suspected insurance fraud to the Department of Insurance and providing information and documents requested by the Fraud Division.
- (e) "Department" means the California Department of Insurance.
- (f) "Fraud Division" means the California Department of Insurance Fraud Division formerly known as the Bureau of Fraudulent Claims.
- (g) "Insurer" means every insurer admitted to do business in this state except the following:
 - (1) Reinsurers.
 - (2) Title insurers.
 - (3) Fraternal fire insurers.
 - (4) Fraternal benefit societies.
 - (5) Firemen, policemen, or peace officer benefit and relief associations.
 - (6) Grant and annuity societies.
 - (7) Home protection
- (h) “Integral anti-fraud personnel” includes insurer personnel who the insurer has not identified as being directly assigned to its SIU but whose duties may include the receipt, processing, investigating, or litigation pertaining to payment or denial of a claim or application. These personnel may include claims handlers, underwriters, agents, policy handlers, call center staff, legal staff, and other insurer employee classifications that perform similar duties.

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(i) “Reasonable belief” is a level of belief that an act of insurance fraud may have or might be occurring for which there is an objective justification based on articulable fact(s) and rational inferences therefrom.

(j) "Red flag" or "red flag event" means facts, circumstances or events which, singly or in combination, support(s) an inference that insurance fraud may have been committed.

(k) "Regulations" means these regulations, California Code of Regulations, Title 10, Chapter 5, Subchapter 9, Article 2.

(l) "Special Investigative Unit" (SIU) means an insurer's unit or division that is established to investigate suspected insurance fraud. The SIU may be comprised of insurer employees or by contracting with other entities for the purpose of complying with applicable sections of the Insurance Frauds Prevention Act (IFPA) for the direct responsibility of performing the functions and activities as set forth in these regulations.

(m) “Suspected insurance fraud” includes any misrepresentation of fact pertaining to a transaction of insurance including claims, premium and application fraud. These facts may include evidence of doctoring, altering or destroying forms, prior history of the claimant, policy holder, applicant or provider, receipts, estimates, explanation of benefits (EOB), medical evaluations or billings, medical provider notes (commonly known as SOAPE notes; Subjective complaint, Objective findings, Assessment, Plan and Evaluation), Health Care Financing Administration (HCFA) forms, police and/or investigative reports, relevant discrepancies in written or oral statements and examinations under oath (EUO), unusual policy activity and falsified or untruthful application for insurance. An identifiable pattern in a claim history may also suggest the possibility of suspected fraudulent claims activity. A claim may contain evidence of suspected insurance fraud regardless of the payment status.

(n) “The Insurance Frauds Prevention Act” or “(IFPA)” shall refer to California Insurance Code section 1871 et seq.

NOTE: Authority: Insurance Code Sections 1875.20, 1875.21, 1875.22 and 1875.23; Calfarm Ins. Co. v. Deukmejian (1989) 48 Cal.3d. 805, 824, 258 Cal. Rptr. 161, 771 P.2d 1247; Credit Ins. Gen. Agents Assn. v. Payne (1976) 16 Cal.3d 651, 656, 128 Cal. Rptr. 881, 547 P.2d 993; Garris v. Carpenter (1939) 33 Cal. App. 2d. 649, 653, 92 P.2d 688.

Reference: Insurance Code Sections 1871 et seq., 1871.2(b), 1872.4, 1873, 1873.3(b), 1874.2 1875.20, 1875.21, 1875.22, 1875.23, 1877.1, 1877.3, 9080, 10970, 11400, 11520, 12400.1 and 12743.

Section 2698.42. ~~PURPOSE AND OBJECTIVES OF INSURER SPECIAL INVESTIGATIVE UNIT.~~

~~The purpose of a Special Investigative Unit is to assure effective implementation of Sections 1871 et seq., of the Insurance Code (the “Insurance Frauds Prevention Act "or "FPA"), to detect and investigate, on behalf of the insurer, suspected fraudulent claims by insureds or persons~~

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~~making claims for services or repairs against policies held by insureds and to deter insurance fraud and to thereby reduce insurance costs. The SIU shall organize the elements of the insurer's integrated, corporate anti-fraud strategy. The SIU shall cooperate with the insurer's claims handlers who are trained in fraud detection as well as the insurer's legal personnel, technical support personnel and database support personnel.~~

~~The SIU shall meet the following primary objectives through the use of the expertise of the SIU staff:~~

- ~~(a) — the establishment of a systematic and effective method to detect and investigate suspected fraudulent claims and to provide for their appropriate disposition~~
- ~~(b) — to educate and train all claims handlers to identify possible insurance fraud through matching specific claims against patterns and trends indicating possible fraud and against specific "red flags", "red flag events" and other criteria indicating possible fraud;~~
- ~~(c) — to facilitate insurer communications with the Fraud Division and insurer reporting of suspected fraudulent claims to local district attorneys. For the purpose of these regulations, such communications between the insurer(s) and the Department shall be subject to the provisions of CIC Sections 1872.5 and 1873.2 and~~
- ~~(d) — the SIU shall comply with the provisions of Article 6 of the FPA at the insurer's discretion.~~

~~NOTE: Authority: Insurance Code Sections 1875.20, 1875.21, 1875.22 and 1875.23; Calfarm Ins. Co. v. Deukmejian (1989) 48 Cal.3d 805, 824, 258 Cal. Rptr. 161, 771 P.2d 1247; Credit Ins. Gen. Agents Assn. v. Payne (1976) 16 Cal.3d 651, 656, 128 Cal. Rptr. 881, 547 P.2d 993; Garris v. Carpenter (1939) 33 Cal. App. 2d 649, 653, 92 P.2d 688.~~

~~— Reference: Insurance Code Sections 1875.20, 1875.21, 1875.22 and 1875.23.~~

Section 2698.31 **Insurer Responsibility**

The insurer shall comply with applicable sections of the IFPA and these regulations regarding the establishment, operation and continuous existence of an SIU.

NOTE: Authority: Insurance Code Sections 1875.20, 1875.21, 1875.22 and 1875.23; Calfarm Ins. Co. v. Deukmejian (1989) 48 Cal.3d 805, 824, 258 Cal. Rptr. 161, 771 P.2d 1247; Credit Ins. Gen. Agents Assn. v. Payne (1976) 16 Cal.3d 651, 656, 128 Cal. Rptr. 881, 547 P.2d 993; Garris v. Carpenter (1939) 33 Cal. App. 2d 649, 653, 92 P.2d 688.

Reference: Insurance Code Sections 1875.20, 1875.21, 1875.22, and 1875.23.

~~**Section 2698.43.** **FUNCTIONS AND ACTIVITIES; ELEMENTS FOR A SYSTEMATIC ANTI-FRAUD STRATEGY.**~~

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The SIU shall undertake the following functions and activities as elements of the insurer's integrated, corporate anti-fraud strategy:

~~(a) — Education and Training:~~

~~(1) — The SIU shall provide ongoing fraud education and training to the insurer's personnel who have responsibilities which are integral to the insurer's corporate anti-fraud strategy and such training shall include, but is not limited to, claims handlers.~~

~~(2) — The SIU shall provide ongoing fraud education and training to the insurer's employees who are the insurer's integral, anti-fraud personnel, which is sufficient to enable such personnel to provide the SIU with appropriate information that is adequate to execute the SIU's anti-fraud functions. Such information shall include, but is not limited to, the identification of patterns and trends indicating possible fraud, in the specific lines of insurance handled by the insurer.~~

~~(3) — The SIU shall establish written procedures to be followed by the insurer's anti-fraud personnel. Such procedures shall include, but are not limited to, the application of patterns and trends indicating possible fraud, of specific "red flags", "red flag events" and other criteria indicating possible fraud, to specific claims for the purpose of assessing the possibility of fraud and the selection and referral of suspected fraudulent insurance claims files to the SIU.~~

~~(4) — The SIU shall establish training for SIU employees which will enable the employees to effectively analyze claims information, pursue appropriate investigations, conduct appropriate and effective interviews; use available database resources; provide comprehensive and appropriate support to the insurer's anti-fraud personnel and work cooperatively with law enforcement agencies, including, but not limited to, the Fraud Division. For the purpose of these regulations, the following activities shall be considered part of an appropriate investigation:~~

~~(A) — a thorough review of the claims file;~~

~~(B) — the identification of all potential witnesses who may provide relevant information on the truth or falsity of the claim;~~

~~(C) — the preservation of relevant documents. For the purpose of these regulations, "relevant" has the same meaning as it is given in CIC Section 1874.1(b);~~

~~(D) — the preparation of a concise summary of the completed investigation, setting forth the investigator's conclusion(s) regarding the suspected fraudulent claim and the basis for said conclusion(s).~~

~~b) — Organization and Staffing:~~

~~(1) — The SIU shall have adequate staffing, and the staff shall have sufficient expertise to assure the timely investigation and disposition of suspected fraudulent claims which are referred to the SIU.~~

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~~(2) — The SIU shall be sufficiently staffed, according to the volume of possible fraudulent claims in a given geographic area and the total number of policies written in each of class of insurance offered by the insurer, to enable the SIU to meet the objectives set forth in Section 2698.42 herein.~~

~~(3) — An SIU which is maintained by the insurer shall be comprised of employees who have expertise in general claims practices; knowledge of the analysis of claims for patterns of fraud; knowledge of current trends in fraudulent claims, knowledge of specific "red flags", "red flag events" and other criteria indicating possible fraud and knowledge of effective and appropriate methods of suspected fraudulent claims investigation; as well as knowledge of insurance and other relevant law related to insurance fraud and knowledge of the use of available database resources containing information to support the SIU's investigative activities.~~

~~(4) — The SIU shall be capable of conducting in-service training in fraud detection for the insurer's anti fraud personnel as set forth in Section 2698.43(a), including, but not limited to, claims handlers.~~

~~(e) — The SIU shall cooperate with the Fraud Division and other relevant law enforcement agencies and authorized governmental agencies to:~~

~~(1) — Assure compliance with Sections 1872.4 and 1877.3 of the Insurance Code;~~

~~(2) — Provide a prompt response to requests made in the course of any criminal or civil investigation undertaken by authorized governmental agencies or law enforcement pursuant to Chapter 12 of the FPA and~~

~~(3) — Coordinate and participate in anti-fraud training.~~

~~NOTE: Authority: Insurance Code Sections 1872, 1875.20, 1875.21, 1875.22 and 1875.23; Calfarm Ins. Co. v. Deukmejian (1989) 48 Cal.3d 805, 824, 258 Cal. Rptr. 161, 771 P.2d 1247; Credit Ins. Gen. Agents Assn. v. Payne (1976) 16 Cal.3d 651, 656, 128 Cal. Rptr. 881, 547 P.2d 993; Garris v. Carpenter (1939) 33 Cal. App. 2d 649, 653, 92 P.2d 688.~~

~~Reference: Insurance Code Sections 1875.20, 1875.21, 1875.22 and 1875.23.~~

~~SECTION 2698.44. — OVERSIGHT OF SPECIAL INVESTIGATIVE UNIT MAINTENANCE AND OPERATIONS.~~

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~~(a) — Every insurer shall notify the Fraud Division in writing of the name(s) of the insurer's personnel, or the name of the organization with which the insurer has contracted for the maintenance of the SIU, who will communicate with the Fraud Division on matters related to the reporting, investigation and prosecution of suspected fraudulent claims. For the purpose of these regulations, the name(s) of the insurer's personnel who will communicate with the Fraud Division shall not be made part of the public record, and shall be released only pursuant to the provisions of CIC Section 1873.1 applicable to information acquired pursuant to Article 3 of the FPA.~~

~~(b) — Within ninety days of the effective date of these regulations, every insurer shall submit to the Fraud Division a written report setting forth the manner in which the insurer is complying with Insurance Code Sections 1875.20, 1875.21, 1875.22 and 1875.23 and setting forth how the insurer is meeting the objectives specified in Section 2698.42 of these Regulations.~~

~~(c) — Annually thereafter, every insurer, with the exception of title insurers and insurance companies writing less than \$500,000.00 in California premium, shall submit a written update report to the Fraud Division specifying any significant changes in the manner in which the insurer is complying with these Regulations. Title insurers and those writing less than \$500,000.00 in California premium shall report biennially. These reports shall include, but shall not be limited to:~~

~~(1) — a description of the insurer's procedures for detecting, investigating and reporting potentially fraudulent claims;~~

~~(2) — a description of the insurer's plan for training anti-fraud personnel pursuant to Section 2698.43 of these Regulations and~~

~~(3) — a written description or chart outlining the organizational arrangement of the insurer's anti-fraud personnel who are responsible for the investigation and reporting of suspected fraudulent claims.~~

~~(d) — Insurers who enter into contracts for the purpose of compliance with Sections 1875.20, 1875.21, 1875.22 and 1875.23 and these Regulations shall provide a copy of the contract to the Department and shall specify the manner in which the contract is monitored.~~

~~NOTE: Authority: Insurance Code Sections 1872, 1875.20, 1875.21, 1875.22 and 1875.23; Calfarm Ins. Co. v. Deukmejian (1989) 48 Cal.3d 805, 824, 258 Cal. Rptr. 161, 771 P.2d 1247; Credit Ins. Gen. Agents Assn. v. Payne (1976) 16 Cal.3d 651, 656, 128 Cal. Rptr. 881, 547 P.2d 993; Garris v. Carpenter (1939) 33 Cal. App. 2d 649, 653, 92 P.2d 688.~~

~~Reference: Insurance Code Sections 1875.20, 1875.21, 1875.22 and 1875.23.~~

~~SECTION 2698.45. — PENALTIES.~~

~~a) — At the time a new or renewal Certificate of Authority is sought by the insurer, pursuant to Insurance Code Section 700, every insurer shall file a written statement, which is to be signed by~~

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~~an officer of the holder or applicant of the Certificate of Authority, under penalty of perjury under the laws of the State of California, attesting to his or her personal knowledge of the existence and proper maintenance of an SIU within the organization for the purposes, objectives, functions, and activities which are set forth in Sections 2698.42 and 2698.43 herein.~~

~~(b) — The failure to provide the statement as set forth in Section 2698.45(a) will be grounds for non-renewal or denial of a Certificate of Authority.~~

~~(c) — After proper noticed hearing conducted in accordance with Government Code Sections 11550 et seq., with the Commissioner having all powers granted therein, any insurer failing to comply with the provisions of Sections 2698.42, 2698.43 and 2698.44 will be subject to a maximum fine of fifty five thousand dollars (\$55,000.00) and/or the suspension of the insurer's Certificate of Authority for not more than one year.~~

~~NOTE: Authority: Insurance Code Sections 700, 704, 704.7, 1872, 1875.20, 1875.21, 1875.22; Calfarm Ins. Co. v. Deukmejian (1989) 48 Cal.3d. 805, 824, 258 Cal. Rptr. 161, 771 P.2d 1247; Credit Ins. Gen. Agents Assn. v. Payne (1976) 16 Cal.3d 651, 656, 128 Cal. Rptr. 881, 547 P.2d 993; Garris v. Carpenter (1939) 33 Cal. App. 2d. 649, 653, 92 P.2d 688.~~

~~Reference: Insurance Code Sections 1875.20, 1875.21, 1875.22 and 1875.23.~~

Section 2698.32

SIU Staffing

(a) **Adequacy.** The adequacy of an insurer's SIU staffing shall be determined by its demonstrated ability to establish, operate and maintain an SIU that is in compliance with these regulations.

(b) **Knowledge.** An SIU shall be composed of employees who have knowledge and experience in general claims practices, the analysis of claims for patterns of fraud, and current trends in insurance fraud, education and training in specific red flags, red flag events, and other criteria indicating possible fraud. They shall have the ability to conduct effective investigations of suspected insurance fraud and be familiar with insurance and related law and the use of available insurer related database resources.

~~NOTE: Authority: Insurance Code Sections 1875.20, 1875.21, 1875.22 and 1875.23; Calfarm Ins. Co. v. Deukmejian (1989) 48 Cal.3d. 805, 824, 258 Cal. Rptr. 161, 771 P.2d 1247; Credit Ins. Gen. Agents Assn. v. Payne (1976) 16 Cal.3d 651, 656, 128 Cal. Rptr. 881, 547 P.2d 993; Garris v. Carpenter (1939) 33 Cal. App. 2d. 649, 653, 92 P.2d 688.~~

~~Reference: Insurance Code Sections 1875.20, 1875.21, 1875.22, and 1875.23.~~

Section 2698.33

SIU Contracted Responsibilities

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- (a) Any contract entered into by an insurer, or an entity under contract with an insurer as provided under these regulations, shall not relieve the insurer of any obligation under these regulations or the IFPA.
- (b) Notwithstanding any other provisions of these regulations, a complete and executed copy of any such agreement, including all attachments, exhibits and amendments thereto, shall be provided to the Fraud Division on execution.
- (c) Any contract entered into by an insurer under this section shall:
- (1) Specify all SIU duties and functions to be performed by the parties to the contract and how the insurer monitors performance of the contract responsibilities.
- (2) Not include provisions that could provide disincentives to the referral and/or investigation of suspected insurance fraud.
- (3) Not include provisions that purport to relieve an insurer of any obligation to comply with the requirements of these regulations and the IFPA.
- (4) Expressly include a provision to require the contracted entity to comply with all applicable provisions of the IFPA and these regulations.

NOTE: Authority: Insurance Code Sections 1875.20, 1875.21, 1875.22 and 1875.23; Calfarm Ins. Co. v. Deukmejian (1989) 48 Cal.3d. 805, 824, 258 Cal. Rptr. 161, 771 P.2d 1247; Credit Ins. Gen. Agents Assn. v. Payne (1976) 16 Cal.3d 651, 656, 128 Cal. Rptr. 881, 547 P.2d 993; Garris v. Carpenter (1939) 33 Cal. App. 2d. 649, 653, 92 P.2d 688.

Reference: Insurance Code Sections 1875.20, 1875.21, 1875.22, and 1875.23.

Section 2698.34 **Communication with the Fraud Division and Authorized Governmental Agencies.**

- (a) The insurer and any entity performing the SIU function(s) shall comply with specific sections of the IFPA regarding communication with the Fraud Division and authorized governmental agencies.
- (b) On written request by the Fraud Division or an authorized governmental agency, an insurer or its agents, shall release in an timely and complete manner any or all relevant information deemed important that the insurer may possess relating to any specific incident of insurance fraud. Such information shall include:
- (1) Insurance policy information.
- (2) Applications.
- (3) Policy premium payment records.
- (4) History of claims.
- (5) Information relating to the carrier's investigation, including statements, proof and notice

of loss.

- (6) Claim file documents.
- (7) Claim notes.
- (8) Investigation files.
- (9) Investigator notes.
- (10) Other information which the Fraud Division or an Authorized Governmental Agency may deem relevant and important.

(c) For the purpose of this section, timely release of information means immediate unless otherwise agreed to by the Fraud Division.

(d) A single written request shall be considered sufficient to compel production of all information deemed relevant by the requesting governmental agency relating to any specific insurance fraud investigation at the time the request is made and subsequent and to require production of the requested records by the insurer named in the request and all persons, agents and brokers employed by and conducting business on behalf of the insurer.

NOTE: Authority: Insurance Code Sections 1875.20, 1875.21, 1875.22 and 1875.23; Calfarm Ins. Co. v. Deukmejian (1989) 48 Cal.3d. 805, 824, 258 Cal. Rptr. 161, 771 P.2d 1247; Credit Ins. Gen. Agents Assn. v. Payne (1976) 16 Cal.3d 651, 656, 128 Cal. Rptr. 881, 547 P.2d 993; Garris v. Carpenter (1939) 33 Cal. App. 2d. 649, 653, 92 P.2d 688.

Reference: Insurance Code Sections 1872.3, 1872.4, 1873, 1874.2, 1875.20, 1875.21, 1875.22, 1875.23; and 1877.3.

Section 2698.35

Detecting Suspected Insurance Fraud.

(a) An insurer's integral anti-fraud personnel are responsible for identifying suspected insurance fraud during the handling of insurance transactions and referring it to the SIU as part of their regular duties.

(b) The SIU shall establish, maintain, distribute and monitor written procedures to be used by the integral anti-fraud personnel to detect, identify, document and refer suspected insurance fraud to the SIU. The written procedures shall include a listing of the red flags to be used to detect suspected insurance fraud for the insurer.

(c) The procedures for detecting suspected insurance fraud shall provide for comparison of any insurance transaction against:

- (1) Patterns or trends of possible fraud
- (2) Red flags
- (3) Events or circumstances present on a claim
- (4) Behavior or history of person(s) submitting a claim or application
- (5) Other criteria that may indicate possible fraud

NOTE: Authority: Insurance Code Sections 1875.20, 1875.21, 1875.22 and 1875.23; Calfarm Ins. Co. v. Deukmejian (1989) 48 Cal.3d. 805, 824, 258 Cal. Rptr. 161, 771 P.2d 1247; Credit Ins. Gen. Agents Assn. v. Payne (1976) 16 Cal.3d 651, 656, 128 Cal. Rptr. 881, 547 P.2d 993; Garris v. Carpenter (1939) 33 Cal. App. 2d. 649, 653, 92 P.2d 688.

Reference: Insurance Code Sections 1871 et seq., 1875.20, 1875.21, 1875.22, and 1875.23.

Section 2698.36 **Investigating Suspected Insurance Fraud.**

(a) The SIU shall establish, maintain, distribute and adhere to written procedures for the investigation of possible suspected insurance fraud. An investigation of possible suspected insurance fraud shall include:

- (1) A thorough analysis of a claim file, application, or insurance transaction.
- (2) Identification and interviews of potential witnesses who may provide information on the accuracy of the claim or application.
- (3) Utilizing industry-recognized databases.
- (4) Preservation of documents and other evidence.
- (5) Writing a concise and complete summary of the investigation, including the investigator's conclusions regarding the suspected insurance fraud and the basis for their conclusions.

NOTE: Authority: Insurance Code Sections 1875.20, 1875.21, 1875.22 and 1875.23; Calfarm Ins. Co. v. Deukmejian (1989) 48 Cal.3d. 805, 824, 258 Cal. Rptr. 161, 771 P.2d 1247; Credit Ins. Gen. Agents Assn. v. Payne (1976) 16 Cal.3d 651, 656, 128 Cal. Rptr. 881, 547 P.2d 993; Garris v. Carpenter (1939) 33 Cal. App. 2d. 649, 653, 92 P.2d 688.

Reference: Insurance Code Sections 1871 et seq. 1875.20, 1875.21, 1875.22, and 1875.23.

Section 2698.37 **Referral of Suspected Insurance Fraud.**

(a) The SIU shall provide for the referral of acts of suspected insurance fraud to the Fraud Division and, as required, district attorneys.

(b) Referrals shall be submitted when in any insurance transaction the facts and circumstances create a reasonable belief that a person or entity may have committed or is committing insurance fraud.

NOTE: Authority: Insurance Code Sections 1875.20, 1875.21, 1875.22 and 1875.23; Calfarm Ins. Co. v. Deukmejian (1989) 48 Cal.3d. 805, 824, 258 Cal. Rptr. 161, 771 P.2d 1247;

Credit Ins. Gen. Agents Assn. v. Payne (1976) 16 Cal.3d 651, 656, 128 Cal. Rptr. 881, 547 P.2d 993; Garris v. Carpenter (1939) 33 Cal. App. 2d. 649, 653, 92 P.2d 688.

Reference: Insurance Code Sections 1872.4, 1874.2, 1875.20, 1875.21, 1875.22, 1875.23; and 1877.3.

Section 2698.38

Referral Content

A referral of an act of suspected insurance fraud to the Fraud Division shall be legible and on a form as directed by the Department and contain the information and data to the extent applicable, as provided in the following.

(a) Fraud and referral type

(1) Fraud type

(2) New referral/amended referral indicator

(b) Reporting party information

(1) Reporting party type

(2) Reporting party name

(3) Reporting party California Company number

(4) Reporting self-insured/contracted third party license number, as appropriate

(5) Reporting party address, city, state and zip code

(6) Reporting party email address (generally, contact address)

(c) Alleged victim information, as appropriate

(1) Alleged victim company name

(2) Alleged victim California Company number

(3) Alleged victim self-insured number

(4) Alleged victim address, city, state and zip code

(d) Insurance policy or claim information, as appropriate

(1) Claim number associated with referral

(2) Insurance policy number associated with referral

(3) Date of loss or injury

(4) Geographic location where loss or injury occurred

(5) Insurance premium dollar loss

(6) Total potential loss on claim prior to the identification of fraud

(7) Total claim loss paid to date

(8) Actual suspected fraudulent loss amount paid to date

(9) A complete synopsis of all the facts on which the reasonable suspicion of the insurance fraud is based

(10) Disaster claim indicator

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- (e) Other agency referral information, as appropriate
 - (1) Names of other authorized governmental agencies receiving this referral
 - (2) Names of any District Attorney's Office receiving this referral
 - (3) National Insurance Crime Bureau (NICB) referral indicator
 - (4) The names of any other agencies receiving this referral

- (f) Referral contact information, as appropriate
 - (1) Referral contact name and phone number
 - (2) Claim or case file handler and phone number
 - (3) Name and phone number of person who completed referral
 - (4) Date referral was completed

- (g) Information for each party associated with the referral
 - (1) Identification of the role of the party to the loss
 - (2) Phone number
 - (3) Address, city, state and zip code
 - (4) Date of birth or age
 - (5) Social security number
 - (6) Tax identification number
 - (7) Drivers license number
 - (8) State of party's drivers license
 - (9) Vehicle license plate number
 - (10) Vehicle license plate state
 - (11) Vehicle identification number
 - (12) Other names or identifiers used by the party
 - (13) Claim of injury indicator

NOTE: Authority: Insurance Code Sections 1875.20, 1875.21, 1875.22 and 1875.23; Calfarm Ins. Co. v. Deukmejian (1989) 48 Cal.3d. 805, 824, 258 Cal. Rptr. 161, 771 P.2d 1247; Credit Ins. Gen. Agents Assn. v. Payne (1976) 16 Cal.3d 651, 656, 128 Cal. Rptr. 881, 547 P.2d 993; Garris v. Carpenter (1939) 33 Cal. App. 2d. 649, 653, 92 P.2d 688.

Reference: Insurance Code Sections 1872.4, 11874.2, 1875.20, 1875.21, 1875.22, 1875.23; and 1877.3.

Section 2698.39

SIU Training

Requirements for training provided by and for the SIU shall include:

- (a) The SIU shall establish and maintain an ongoing anti-fraud training program, planned and conducted to develop and improve the anti-fraud awareness skills of the integral anti-fraud personnel.

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- (b) The insurer shall designate an SIU staff person to be responsible for the ongoing anti-fraud training program.
- (c) The anti-fraud training program shall include instruction on:
- (1) The function and purpose of the SIU.
 - (2) Introduction/review of the written procedures established by the SIU regarding the identification, documentation and referral of incidents of suspected fraud to the SIU.
 - (3) Identification and recognition of red flags or red flag events.
 - (4) Any changes to current procedures for identifying, documenting and referring incidents of suspected insurance fraud to the SIU.
 - (5) Fraud Division insurance fraud reporting requirements.
 - (6) Introduction and review of existing and new, emerging insurance fraud trends.
- (d) In addition to training provided to integral antifraud personnel provided herein, the SIU personnel shall receive anti-fraud training that includes investigative techniques, communication with the Fraud Division and authorized governmental agencies, fraud indicators, emerging fraud trends, legal and related issues.
- (e) All insurers shall provide an anti-fraud orientation program to all SIU and integral anti-fraud personnel within thirty (30) days after hire. Thereafter, insurers shall provide anti-fraud training to SIU and integral antifraud personnel on an annual basis.
- (f) Records of the anti-fraud training provided to all staff shall be prepared at the time training is provided and be maintained and available for inspection by the Department on request. The training records shall include the title and date of the anti-fraud training course, name and title and contact information of the instructor(s), description of the course content, length of the training course, and the name and job title(s) of participating personnel.

NOTE: Authority: Insurance Code Sections 1875.20, 1875.21, 1875.22 and 1875.23; Calfarm Ins. Co. v. Deukmejian (1989) 48 Cal.3d. 805, 824, 258 Cal. Rptr. 161, 771 P.2d 1247; Credit Ins. Gen. Agents Assn. v. Payne (1976) 16 Cal.3d 651, 656, 128 Cal. Rptr. 881, 547 P.2d 993; Garris v. Carpenter (1939) 33 Cal. App. 2d. 649, 653, 92 P.2d 688.

Reference: Insurance Code Sections 1875.20, 1875.21, 1875.22 and 1875.23.

Section 2698.40

SIU Annual Report

- (a) Each insurer shall file a report as prescribed herein, at the time its initial Certificate of Authority is issued, and annually thereafter. The annual report shall be due no later than

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90 days after the date of mailing of the notification by the Department. The Department shall issue the notification in June of each year.

(b) A complete, accurate and truthful annual report shall be submitted on a form as prescribed by the Department and shall include the following information.

(1) The name(s), title(s) and contact information of the insurer's SIU personnel, or

(2) The name of the organization and organizational contacts with whom the insurer has contracted for the maintenance of the SIU or any function thereof, and

(3) The names of personnel whose duties include communication with the Fraud Division on matters related to the reporting, investigation and prosecution of suspected fraudulent claims or other suspected insurance fraud.

(4) A description of the insurer's methods and written procedures used for detecting, investigating and reporting suspected insurance fraud.

(5) A description of the insurer's plan for initial and on-going fraud education and training for integral anti-fraud personnel pursuant to these regulations.

(6) A written description or chart outlining the organizational arrangement of the insurer's anti-fraud personnel who are responsible for the investigation and reporting of suspected insurance fraud.

(7) A description of how the SIU is adequately staffed to meet the requirements herein and the expertise of the staff;

(8) The number of claims processed by the insurer and the number of claims referred to the SIU, for each reported company, for the past calendar year;

(9) The number of suspected insurance fraud reported to the Department and to district attorney offices, for each reported company, for the past calendar year.

(10) A description of any significant, anticipated changes to the insurer's operations.

(11) Insurers who enter into contracts for the purpose of compliance with CIC Section 1875.20 et seq. shall provide a complete copy of the fully executed, existing contract, including all attachments and addendum, to the Department and shall specify the manner in which the contract is monitored.

(12) The number and type of civil actions for each reported company alleging acts of insurance fraud during the preceding calendar year.

(c) A statement signed under penalty of perjury must accompany all reports mentioned herein. This statement must be signed by an officer of the holder of or applicant for the

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Certificate of Authority who attests to the accuracy of the reported information and the signor's personal knowledge of the existence and proper maintenance of an SIU as required by CIC Section 1875.20 et seq. and these regulations.

(d) The insurer is to maintain a copy of the annual report that will be available for review.

(e) For the purpose of these regulations, the name(s) of the insurer's personnel who will communicate with the Fraud Division shall not be made part of the public record and shall be released only pursuant to the provisions of CIC Section 1873.1 applicable to information acquired pursuant to Article 3 of the Insurance Frauds Prevention Act.

NOTE: Authority: Insurance Code Sections 1875.20, 1875.21, 1875.22 and 1875.23; Calfarm Ins. Co. v. Deukmejian (1989) 48 Cal.3d. 805, 824, 258 Cal. Rptr. 161, 771 P.2d 1247; Credit Ins. Gen. Agents Assn. v. Payne (1976) 16 Cal.3d 651, 656, 128 Cal. Rptr. 881, 547 P.2d 993; Garris v. Carpenter (1939) 33 Cal. App. 2d. 649, 653, 92 P.2d 688.

Reference: Insurance Code Sections 1871.7, 1875.20, 1875.21, 1875.22 and 1875.23.

Section 2698.41 **Examinations**

(a) The commissioner may conduct examinations of an insurer's SIU and related operations, including operations undertaken by entities under contract with the insurer, as deemed necessary to determine compliance with the requirements of this article.

(b) A written report of examination, including identification of violations of these applicable provisions of statute and regulation and required corrective action, if any, will be provided to the insurer on completion of the examination.

(c) Notwithstanding any penalty imposed pursuant to the regulations, within thirty (30) days of receipt of a written report identifying any violation(s) of these regulations, an insurer shall submit to the Department a plan demonstrating how the insurer will correct such violation(s) and achieve compliance. Such plan shall be subject to examination by the Department. If accepted by the Department, the plan shall be submitted as a supplement to any existing annual report and shall be accompanied by an statement of an officer of the insurer as otherwise required for annual reports. Failure to submit a corrective action and compliance plan or to comply with such plan when accepted by the Department shall be considered a violation of these regulations.

NOTE: Authority: Insurance Code Sections 1875.20, 1875.21, 1875.22 and 1875.23; Calfarm Ins. Co. v. Deukmejian (1989) 48 Cal.3d. 805, 824, 258 Cal. Rptr. 161, 771 P.2d 1247; Credit Ins. Gen. Agents Assn. v. Payne (1976) 16 Cal.3d 651, 656, 128 Cal. Rptr. 881, 547 P.2d 993; Garris v. Carpenter (1939) 33 Cal. App. 2d. 649, 653, 92 P.2d 688.

Reference: Insurance Code Sections 730, 1875.20, 1875.21, 1875.22, and 1875.23.

Section 2698.42 **Penalties**

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- (a) On notice and hearing in accordance with Government Code sections 11550 et seq., the Commissioner may impose sanctions for violation of these regulations and/or Article 5.6 (commencing with section 1875.20) of the California Insurance Code.
- (b) Notwithstanding any other provisions of law, for each act in violation of these regulations an insurer will be subject to a penalty of not more than \$55,000 and/or suspension or revocation of the insurer's Certificate of Authority.

NOTE: Authority: Insurance Code Sections 1875.20, 1875.21, 1875.22 and 1875.23; Calfarm Ins. Co. v. Deukmejian (1989) 48 Cal.3d. 805, 824, 258 Cal. Rptr. 161, 771 P.2d 1247; Credit Ins. Gen. Agents Assn. v. Payne (1976) 16 Cal.3d 651, 656, 128 Cal. Rptr. 881, 547 P.2d 993; Garris v. Carpenter (1939) 33 Cal. App. 2d. 649, 653, 92 P.2d 688.

Reference: Insurance Code Sections 704, 704.7, 1875.20, 1875.21, 1875.22, 1875.23 and 12928.5.